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SUBJECT: GEORGIA: IFC EVALUATES GEORGIA'S SECTOR
COMPETITIVENESS

¶1. (SBU) Summary/Comment: On June 29, the International Finance Committee (IFC) released the results of its Sector Competitiveness Overview of Georgia. The Georgian Government requested the IFC conduct the competitiveness survey to help them identify strategic areas to focus investment in hopes of boosting Georgian exports and creating jobs. The report identifies Georgia's most promising manufacturing sectors and notes a few non-manufacturing sectors with substantial economic potential. The IFC identified six sectors in which it believes Georgia can compete locally and globally: Wine, Fruit, Vegetables, Construction Materials, Apparel, and Pharmaceuticals and Medical Devices. The IFC identified these sectors as having strong potential for export to the EU and within the Caucasus, as well as import replacement for local markets. The IFC also believes development in these sectors could create a significant number of jobs. According to the IFC study, the disconnect between the education system and labor market remains a significant obstacle to economic growth. The study also stressed Georgia's liberal business climate and strategic position on the Black Sea and as a gateway to the Caucasus and Central Asia as decided competitive advantages. However, the shortage of quality graduates in vocational fields where employment demand and growth potential are greatest will remain a challenge for the foreseeable future. End Summary/Comment.

Overarching Findings

¶2. (SBU) The IFC urged Georgia to promote education, training and skills development in all sectors if it wants to better use its competitive advantages. The study notes, "that the quality of technical graduates has decreased." The IFC recommends that local and international investors be made aware of opportunities in specific key sectors and that sector strategies be developed. Certain industries need to be brought up to international standards, especially the fruit, vegetable, wine and pharmaceutical sectors. Other recommendations are to improve collaborations within the sectors (e.g. joint marketing, training, certification, etc.), continue government programs like the "cheap credit" program for business, and ease up on the aggressive levying of taxes and fines. Though outside of the original scope of the report, the IFC also stressed the potential of certain non-manufacturing sectors, such as Exportable Services (Internet Technology and Business Process Outsourcing), Logistics and Transport Services, Tourism, and Utilities.

Wine

¶3. (SBU) Georgia's strong, unique history of wine making placed viniculture at the top of the report. The Georgian wine industry has made significant strides in the last five years, especially in terms of quality and developing markets in Europe and the U.S. Despite this growth, many challenges remain. The IFC noted that while Georgian wines have brand recognition within the former Soviet Republics, Georgia needs to do more to develop a following in European, U.S. and Asian

markets. Georgia enjoys a unique logistics location for export to EU and CIS markets, a large number of experts in the field and enjoys low costs in the areas of wages and grapes. Nevertheless, the current Russian embargo, poor technology, high packing costs (including imported bottles and corks), small scale of producers, lack of collaboration between producers, and lack of certification to international standards hamper growth. The IFC recommends that wine industry producers collaborate on marketing, Research and Development, materials sourcing and standards in order to facilitate growth. The report further states wine producers need to strengthen educational programs and bring in more international expertise via investors and partnerships with international companies to improve competitiveness.

Fruits and Vegetables

14. (SBU) The IFC identified agriculture, in particular fruit and vegetables, as Georgia's strongest sector. Georgia's main strength are its climate and topography which is able to support a wide range of fruits, such as apples, berries, citrus and grapes. Georgia's favorable climate requires less investment in greenhouses and irrigation. Georgia has local knowledge and donor interest in investing in agriculture. As with wine production, the current Russian embargo, numerous small scale producers, lack of investment, lack of modern facilities/latest technologies, packaging and transport costs, marketing, certification and R and D are all factors that stifle growth in the fruit sector. The IFC recommends that Georgia further promote opportunities in this sector to both local and international investors, provide more assistance to producers, encourage collaboration among producers and modernize production facilities. Again, similarly to the wine sector the IFC documents the need to

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strengthen educational programs and to bring in more international expertise via investors and partnerships with international companies.

Construction Materials

15. (SBU) This sector covers all materials needed for construction from cement and gypsum to plastic, glass and wooden fittings. Georgia has significant reserves of raw materials, low labor costs and is situated in a growing market in the Caucasus (the predominant consumers being Azerbaijan and Armenia); and a business environment identified as attractive. Unfortunately, Georgia has higher energy costs than Azerbaijan and Armenia as well as stiff competition from both countries. Inconsistency and a lack of transparency in awarding licenses is a problem. The IFC recommends that a full analysis of this sector be completed, increase promotion to local and foreign investors, and review the whole process for acquiring raw material licenses as well as expanding the skills base through education.

Apparel

16. (SBU) Georgia's competitive cost factors (e.g. wages, real estate, logistics, utilities, etc.) are lower than its main competitor in the region, Turkey. Its proximity to the EU puts it in a more favorable position vis-a-vis its Asian competitors. The local work force in this sector has the necessary skill set the market requires, but is underemployed. The main weakness is that textile manufacturing is mainly located in the Batumi area which tends to restrict the labor supply. Georgia also suffers from a limited local supply base meaning many raw materials need to be imported. The IFC recommends identifying and developing more locations across Georgia for textile production, attracting more Turkish firms to relocate to Georgia to take advantage of lower labor costs, and pursuing duty-free access to the U.S. market.

Pharmaceuticals

17. (SBU) Imports of pharmaceuticals to the Caucasus and Central Asia have been growing steadily over the past few years as there is virtually no local manufacturing capability. Georgia, with three existing manufacturers, a strategic location to export to these markets, low cost factors, a good business environment and a good skill base has many natural economic advantages to successfully develop this sector. Unfortunately, the skill base is shrinking. Georgia's products suffer from inconsistent quality and poor standards, uneven enforcement of IP regulations and strong competition from a "shadow market" of smuggled and/or falsified and expired medicines. The IFC's recommendations are that Georgia deepen and expand its skill-base through education, establish a clear timeline and targets for meeting minimum industry standards and to launch a campaign to promote Georgia's medical manufacturing assets to local entrepreneurs and foreign investors.

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